

# **Muskegon Area District Library**

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## **Financial Statements and Required Supplemental Information** For the Years Ended December 31, 2007 and 2006

# Muskegon Area District Library

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## **Independent Auditors' Report**

To the Board of Trustees of the  
Muskegon Area District Library

We have audited the financial statements of the governmental activities of the Muskegon Area District Library, as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Muskegon Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements listed in the table of contents present fairly, in all material respects, the financial position of the governmental activities of the Muskegon Area District Library at December 31, 2007 and 2006, and the changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedule (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Pridnia Lapres, PLLC*

September 3, 2008

Muskegon Area District Library  
Management's Discussion and Analysis  
December 31, 2007

The management of the Muskegon Area District Library presents a narrative overview of the financial condition and operations of the library for the years ended December 31, 2007 and 2006. Please read this narrative in conjunction with our financial statements and notes to financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) statement number 34 and presented in the prescribed format.

The District Library's financial statements are comprised of: 1) Governmental Funds Balance Sheet/Statement of Net Assets and 2) Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. This report also contains required supplementary information regarding a budgetary comparison schedule of the General Fund.

The "statement of net assets" provides information about the library's assets and liabilities, with the difference between the two being reported as "net assets". Viewing this difference over a period of years can serve as one indicator of the library's ability to continue to operate.

The "statement of activities" provides information on why net assets changed in the period just ended. All changes in net assets are reported as soon as the event occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples of timing differences are uncollected taxes and earned but unused vacation leave.

The library was primarily supported by penal fines and contributions in 2006 from the County. In 2007, the primary support was property taxes. In 2008, the primary support will be property taxes that are levied on an annual basis. Renewal of the levy occurs every 10 years and ends December 31, 2016. Expenditures are primarily for branch operations, administration, and book purchases.

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information concerning the library's budget and how it relates to the amounts actually spent.

The District Library as a Whole

The “Statement of Net Assets” provide the readers with information on the General Fund of the library under full accrual which includes capital assets and debt. With the economic resources presentation, readers can see if the library is improving or deteriorating financially. The library’s total assets equal \$3,588,619 with unrestricted net assets being \$713,304. This improvement is primarily the result of the collection of property taxes levied in 2006.

District Library Statement of Net Assets		
<i>December 31,</i>	2007	2006
<hr/>		
Categories		
Assets		
Cash	\$ 900,264	\$ 47,023
Taxes Receivable	2,411,800	2,144,229
Accounts Receivable	324	709
Capital Assets, net	276,231	199,085
	<hr/>	
Total Assets	\$3,588,619	\$2,391,046
	<hr/>	
Liabilities		
Due To Other Governmental Units	\$ -	\$ 300,000
Deferred Revenue	2,463,854	2,325,265
Accrued Liabilities	135,230	-
	<hr/>	
Liabilities	\$2,599,084	\$2,625,265
	<hr/>	
Net Assets		
Investment in Capital Assets, Net of Related Debt	\$ 276,231	\$ 199,085
Unrestricted	713,304	(433,304)
	<hr/>	
Total Net Assets	\$ 989,535	\$ (234,219)
	<hr/>	

District Library  
Statement of Activities

<i>Years ended December 31,</i>	2007	2006
<hr/>		
Revenues		
Tax Revenue	\$2,353,937	\$ -
Contributions	11,268	65,816
Penal Fines	400,196	429,992
Grants	133,550	125,680
Reimbursements	41,105	158,506
Interest and Rentals	46,987	-
Other	34,164	61,965
<hr/>		
Total Revenues	3,021,207	841,959
 Expenditures		
Leased employer costs	-	936,901
Salaries and Wages	936,407	-
Depreciation	119,265	135,825
Other	741,781	437,095
<hr/>		
Total Expenditures	1,797,453	1,509,821
<hr/>		
Excess of Revenues over Expenditures	1,223,754	(667,862)
Net Assets Beginning of Year	(234,219)	433,643
<hr/>		
Net Assets End of Year	\$ 989,535	\$ (234,219)
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### Economic factors for next year's budget

The Library's budget for 2008 projects a balanced budget and an anticipated fund balance surplus at year's end. The majority of revenues will come from property taxes. The remainder of funds will come from state aid grants to libraries, penal fines, USF credits, book sale revenues, overdue book fines, lost and damaged book charges. Photocopy machine income and memorial donations come from individuals and groups.

It is not anticipated that state aid grants to libraries will be reduced in 2008 but will remain at 2007 levels. State Aid grants are a small portion of MADL'S overall budget, but are a large portion of the budget for our Blind and Physically Handicapped services. State Aid Grants are important to Library Cooperatives and cooperative services to member libraries. Cooperative state aid reductions are not anticipated for 2008. Penal fines vary from year to year and can only be estimated based on previous year's receipts.

Inflation will have an impact on the cost of supply and materials purchases. Wages are also affected by inflation as the library increases wage rates based on a cost of living formula. Increasing gas prices will have an effect on the overall costs of delivery services. The result of union negotiations currently in progress could cause a modest increase in salaries and fringe benefits. The current depressed real estate market could have an overall effect on property tax

The above factors will result in budget adjustments but should still result in a balanced budget with a fund balance surplus.

### Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interest parties with a general view of the Library's financial operations and to show the Library's accountability for the revenues it receives. If you have questions or need further clarification about this report, please contact Stephen Dix, Library Director, at 231-737-6248 or email him at [mclsd@llcoop.org](mailto:mclsd@llcoop.org).

<i>December 31,</i>	2007		
	Modified		Full
	Accrual Basis		Accrual Basis
	General Fund	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 900,264	\$ -	\$ 900,264
Taxes receivable (Note 1)	2,411,800	-	2,411,800
Accounts receivable	324	-	324
Capital assets, net (Note 3)	-	276,231	276,231
<b>Total Assets</b>	<b>\$3,312,388</b>	<b>\$ 276,231</b>	<b>\$3,588,619</b>
<b>Liabilities</b>			
Due to other governmental unit (Note 5)	\$ -	\$ -	\$ -
Accrued liabilities	135,230	-	135,230
Deferred Revenue	2,463,854	-	2,463,854
<b>Total Liabilities</b>	<b>2,599,084</b>	<b>-</b>	<b>2,599,084</b>
<b>Fund Balance (Deficit)</b>			
Fund balance (deficit) - unreserved			
Unrestricted	713,304	(713,304)	-
<b>Total Liabilities and Fund Balance (Deficit)</b>	<b>\$3,312,388</b>		
<b>Net Assets (Deficit)</b>			
Investment in capital assets		276,231	276,231
Unrestricted		713,304	713,304
<b>Total Net Assets (Deficit)</b>		<b>\$ 989,535</b>	<b>\$ 989,535</b>

# Muskegon Area District Library

## Governmental Fund Balance Sheets/Statements of Net Assets (Deficit)



2006		
<u>Modified</u>		<u>Full</u>
<u>Accrual Basis</u>		<u>Accrual Basis</u>
<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Net Assets</u>
\$ 47,023	\$ -	\$ 47,023
2,144,229	-	2,144,229
709	-	709
-	199,085	199,085
<u>\$2,191,961</u>	<u>\$ 199,085</u>	<u>\$2,391,046</u>
\$ 300,000	\$ -	\$ 300,000
-	-	-
2,325,265	-	2,325,265
<u>2,625,265</u>	<u>-</u>	<u>2,625,265</u>
<u>(433,304)</u>	433,304	-
<u>\$2,191,961</u>		
	199,085	199,085
	(433,304)	(433,304)
	<u>\$ (234,219)</u>	<u>\$ (234,219)</u>

*The accompanying notes are an integral part of this statement.*

<i>Years ended December 31,</i>	2007		
	Modified	Adjustments	Full Accrual
	Accrual Basis		Basis
	General Fund		Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 2,353,937	\$ -	\$ 2,353,937
State grants	133,550	-	133,550
Interest and rentals	46,987	-	46,987
Contributions	11,268	-	11,268
Fines and forfeits	400,196	-	400,196
Reimbursements	41,105	-	41,105
Other revenue	34,164	-	34,164
Total Revenue	3,021,207	-	3,021,207
<b>Expenditures</b>			
Administrative expense	31,065	-	31,065
Advertising	122	-	122
Benefits	186,734	-	186,734
Books and magazines (Note 6)	230,490	(196,411)	34,079
Contractual services	393,996	-	393,996
Depreciation	-	119,265	119,265
Insurance	10,122	-	10,122
Interest	-	-	-
Leased employee costs	-	-	-
Maintenance	28,833	-	28,833
Miscellaneous	28,070	-	28,070
Postage	6,263	-	6,263
Professional fees	49,151	-	49,151
Occupancy	60,977	-	60,977
Salary and wages	749,673	-	749,673
Supplies	28,865	-	28,865
Telephone	59,280	-	59,280
Travel	3,854	-	3,854
Utilities	7,104	-	7,104
Total Expenditures	1,874,599	(77,146)	1,797,453
<b>Net Change in Fund Balance</b>	<b>1,146,608</b>	<b>77,146</b>	<b>1,223,754</b>
<b>Fund balance (deficit)/Net assets (deficit) - Beginning of year</b>	<b>(433,304)</b>	<b>199,085</b>	<b>(234,219)</b>
<b>Fund balance (deficit)/Net assets (deficit) - End of year</b>	<b>\$ 713,304</b>	<b>\$ 276,231</b>	<b>\$ 989,535</b>

# Muskegon Area District Library

## Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities

2006		
Modified Accrual Basis		Full Accrual Basis
General Fund	Adjustments	Statement of Activities
\$ -	\$ -	\$ -
125,680	-	125,680
5,700	-	5,700
65,816	-	65,816
429,992	-	429,992
158,506	-	158,506
56,265	-	56,265
841,959	-	841,959
75,812	-	75,812
-	-	-
-	-	-
60,538	(41,225)	19,313
75,367	-	75,367
-	135,825	135,825
15,708	-	15,708
1,998	-	1,998
936,901	-	936,901
21,965	(8,394)	13,571
60,433	(42,924)	17,509
9,388	-	9,388
45,142	-	45,142
42,707	(7,359)	35,348
-	-	-
61,265	-	61,265
62,834	-	62,834
1,940	-	1,940
1,900	-	1,900
1,473,898	35,923	1,509,821
(631,939)	(35,923)	(667,862)
198,635	235,008	433,643
\$ (433,304)	\$ 199,085	\$ (234,219)

*The accompanying notes are an integral part of this statement.*

# Muskegon Area District Library

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### Reporting Entity

The Muskegon Area District Library (District Library) was established on October 1, 2005, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Muskegon County, Blue Lake, Casnovia, Cedar Creek, Dalton, Egelston, Fruitland, Fruitport Charter, Holton, Laketon, Montague, Moorland, Muskegon Charter, Ravenna, Sullivan and White River Townships, Village of Fruitport, and the Cities of Montague, Muskegon Heights, North Muskegon, Norton Shores and Roosevelt Park. The District Library provides library services to the general public.

The Library is funded primarily through property taxes, penal fines, grants, and donations. The voters of the districts approved a 0.75 mill tax for a ten year period, which began with a tax levy effective December 1, 2006. This millage provides for funding of Library operations and capital expenditures through December 31, 2016.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Muskegon Area District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

# Muskegon Area District Library

## Notes to Financial Statements

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### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

State-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The various funds are presented in these financial statements as follows:

*General Fund* - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the District Library.

# Muskegon Area District Library

## Notes to Financial Statements

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### Capital Assets

Capital assets, which include property and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property and equipment is depreciated using the straight-line method over the following useful lives:

Collections	5 years
Equipment	3 - 5 years

### Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent March 1 of the following year, at which time they are turned over to the County of Muskegon for collection. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue in the calendar year following the levy.

The 2007 and 2006 taxable value of the district totaled \$3,289,524,342 and \$3,104,493,227, respectively, on which taxes levied consisted of 0.75 mills for operating purposes. This resulted in \$2,463,854 and \$2,325,265 recognized as deferred revenue as of December 31, 2007 and 2006, respectively.

# Muskegon Area District Library

## Notes to Financial Statements

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### Deferred Revenue

Income is recognized as revenue as it is earned. Property taxes levied December 1 are for the following year's budget, as described previously. Accordingly, the December 1 tax levy is recorded as deferred revenue at December 31.

### Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or before December 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed operating and capital expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. Budgeted amounts are reported as originally adopted, or as amended by the District Library Board. Budget appropriations were amended during 2007.
- h. The budget has been adopted on a total fund basis.

# Muskegon Area District Library

## Notes to Financial Statements

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### **Fund Deficit**

As of December 31, 2006, the Library had an undesignated fund deficit of \$433,304. As of December 31, 2007 the fund deficit was eliminated.

### **Encumbrances**

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **Donations**

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

### **Cash Equivalents**

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

# Muskegon Area District Library

## Notes to Financial Statements

- 2. Cash** The District Library's cash at December 31, 2007 and 2006 is reported in the General Fund. At December 31, 2007 and 2006, the carrying amount of the District Library's deposits were \$900,264 and \$47,023, respectively, and are fully secured by the County of Muskegon's fiduciary responsibility.

- 3. Capital Assets** Capital assets activity of the District Library for the year ended December 31, 2007 was as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
<b>Governmental Activities</b>				
Capital assets being depreciated				
Collections	\$ 246,296	\$ 196,411	\$ -	<b>\$ 442,707</b>
Equipment	123,967	-	-	<b>123,967</b>
Subtotal	370,263	196,411	-	<b>566,674</b>
Less accumulated depreciation for:				
Collections	(124,436)	(103,015)	-	<b>(227,451)</b>
Equipment	(46,742)	(16,250)	-	<b>(62,992)</b>
Subtotal	(171,178)	(119,265)	-	<b>(290,443)</b>
<b>Governmental Activities</b>				
<b>Total Capital Assets -</b>				
<b>Net of Depreciation</b>	\$ 199,085	\$ 77,146	\$ -	<b>\$ 276,231</b>

# Muskegon Area District Library

## Notes to Financial Statements

### 4. District Library Agreements

The District Library entered into an agreement with local participating municipalities effective October 1, 2005. Among other things, the Agreement provided for Muskegon County to pay the District Library an amount equal to \$300,000 no later than October 15, 2006. The District Library received this payment and was obligated to reimburse the County for the same amount without interest when revenues were received from the December 1, 2006 levy of the District Library millage. The District Library paid this liability in full during 2007.

The District Library entered into a non-cancelable lease agreement to lease a facility from an unaffiliated entity at August 1, 2006. The lease requires monthly payments of \$3,997, with annual increases during the lease term based upon increases in the Consumer Price Index of the Bureau of Labor Statistics, but not to exceed 3%. The lease expires July 2016. The lease also contains an option to purchase the existing building from the lessor at the District Library's option.

Minimum future rental payments under this non-cancelable operating lease for each of the next five years and thereafter and in the aggregate are approximately as follows:

*Year ended December 31,*

2008	\$ 49,700
2009	50,900
2010	52,200
2011	53,500
2012	54,800
2013 and thereafter	233,400
	<u>\$ 494,500</u>

Rental expense under this lease agreement was \$47,964 and \$19,985 for the years ended December 31, 2007 and 2006, respectively.

# Muskegon Area District Library

## Notes to Financial Statements

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The District Library also had an employee leasing agreement with the County of Muskegon which was terminated on December 31, 2006. In accordance with the agreement, the District Library reimbursed the County for all associated payroll costs for the County employees assigned to the Library. Effective January 1, 2007, those employees that were leased from the County of Muskegon became employees of the Muskegon Area District Library.

### **5. Capitalized Books**

The District Library generally capitalizes its purchases of Collection materials, with the exception of periodicals, in the Statement of Net Assets. The District Library expended \$230,490 (less \$196,411 capitalized) and \$60,538 (less \$41,225 capitalized) for books and magazines purchases for the years ended December 31, 2007 and 2006.

### **6. Pension Plan**

Effective January 1, 2007, the District Library has a defined benefit pension plan that provides retirement, disability and death benefits to its employees. The plan is administered by the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer pension plan administered by the nine member board of MERS. Public Act 135 of 1945 as amended by Public Act 220 of 1996 assigns authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities.

MERS issues a publicly available financial report that includes financial statements and required supplemental information for the District Library. That report may be obtained by contacting the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917.

# Muskegon Area District Library

## Notes to Financial Statements

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### **7. Endowment Funds**

Various endowment funds have been established at the Community Foundation for Muskegon County for the District Library. These funds are accounted for and administered by the Community Foundation for Muskegon County. At December 31, 2007 and 2006, these funds were valued at approximately \$85,000 and \$82,000, respectively.

## **Required Supplemental Information**



# Muskegon Area District Library

## Budgetary Comparison Schedule - General Fund

<i>Year ended December 31, 2007</i>	Original Budget	Final Amended Budget	Actual	Variance with Final Amended Budget
<b>Revenues</b>				
Property taxes	\$2,286,539	\$2,270,570	\$2,353,937	\$ 83,367
State grants	126,000	133,550	133,550	-
Interest and rentals	6,750	39,100	46,987	7,887
Contributions	26,050	10,850	11,268	418
Fines and forfeits	424,000	398,334	400,196	1,862
Reimbursements	28,000	33,062	41,105	8,043
Other revenue	33,300	34,795	34,164	(631)
<b>Total Revenues</b>	<b>2,930,639</b>	<b>2,920,261</b>	<b>3,021,207</b>	<b>100,946</b>
<b>Expenditures</b>				
Administrative expense	369,807	42,000	31,065	10,935
Advertising	3,000	3,250	122	3,128
Benefits	-	234,847	186,734	48,113
Books and magazines	286,050	268,550	230,490	38,060
Contractual services	312,850	394,970	393,996	974
Insurance	8,700	12,680	10,122	2,558
Maintenance	36,500	25,750	28,833	(3,083)
Miscellaneous	22,200	29,090	28,070	1,020
Postage	9,000	8,000	6,263	1,737
Professional fees	15,800	66,000	49,151	16,849
Occupancy	55,400	60,200	60,977	(777)
Salaries and wages	1,285,000	725,417	749,673	(24,256)
Supplies	13,690	26,950	28,865	(1,915)
Telephone	65,900	60,946	59,280	1,666
Travel	7,400	3,600	3,854	(254)
Utilities	8,560	9,004	7,104	1,900
<b>Total Expenditures</b>	<b>2,499,857</b>	<b>1,971,254</b>	<b>1,874,599</b>	<b>96,655</b>
<b>Net Change in Fund Balance</b>	<b>430,782</b>	<b>949,007</b>	<b>1,146,608</b>	<b>197,601</b>
<b>Fund balance (deficit) -</b>				
Beginning of year	(433,304)	(433,304)	(433,304)	-
<b>Fund balance (deficit) - End of year</b>	<b>\$ (2,522)</b>	<b>\$ 515,703</b>	<b>\$ 713,304</b>	<b>\$ 197,601</b>

# **Muskegon Area District Library**

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## **Management Letter** Year Ended December 31, 2007

# Muskegon Area District Library

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<b>Letter to the Board of Trustees</b>	<b>3</b>
<b>Current Year Observations</b>	<b>4</b>

To the Board of Trustees of the  
Muskegon Area District Library

During the course of our audit of the financial statements of Muskegon Area District Library as of and for the year ended December 31, 2007, we observed the Organization's significant accounting policies and procedures and certain administrative and financial practices.

As a result of our observations, we have prepared, for management's review and evaluation, the enclosed memorandum containing observations regarding internal control, accounting procedures and financial and administrative practices of the Organization for the year ended December 31, 2007.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the cooperation from management and the staff of Muskegon Area District Library that our personnel received during the audit.

*Pridnia Lapres, PLLC*

September 3, 2008

# Muskegon Area District Library

## Current Year Observations

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### **Payroll**

The Executive Director of the District Library reviews the employee data (i.e., a spreadsheet containing employee names, hours, etc.) which is submitted to the County of Muskegon's payroll department for processing. The payroll is processed; the payroll register along with the payroll checks are printed and returned to the District Library's main office. Currently, no one is reviewing the payroll register prior to employee payroll checks being distributed.

Because spreadsheets are subject to manipulation and unauthorized payments to fictitious or existing employees could go undetected, we recommend the Executive Director review the payroll register that is received after payroll is processed, along with the input data, to ensure propriety of the District Library's payroll.

To the Board of Trustees of the  
Muskegon Area District Library

September 3, 2008

In planning and performing our audit of the financial statements of the Muskegon Area District Library (District Library) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the District Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Year-to-date financial information maintained by the Library's staff is not being reconciled to that of their fiscal agent, the County of Muskegon. Reconciliation of this information can help to prevent and detect errors and is an important step to ensure accurate information is presented to the Board of Trustees. During the audit of the District Library, we noted year-to-date penal fine revenue did not reconcile between the County's records and the Library's records resulting in a material journal entry.

This communication is intended solely for the information and use of management, the Board of Trustees of Muskegon Area District Library, and the State of Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Prudnia Lathes, LLC*

Board of Trustees  
Muskegon Area District Library

September 3, 2008

Dear Board of Trustees:

Professional standards require us to advise you of the following matters relating to our recently completed audit of the Muskegon Area District Library (the "District Library") as of and for the year ended December 31, 2007. The matters discussed herein are those that we have noted as of September 3, 2008 and we have not updated our procedures regarding these matters since that date to the current date.

#### **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 17, 2008, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the District Library's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

#### **Overview of Planned Scope and Timing of the Audit**

A discussion was held with the District Library's Executive Director on April 24, 2008 regarding the planned scope and timing of the audit, the intention of which was to assist those charged with governance in understanding better the consequences of our audit work and your oversight responsibilities along with assisting us in understanding better the District Library and its environment. The focus of this discussion included how the risks of material misstatement, whether due to error or fraud, would be addressed and on factors, rather than specific thresholds or amounts, that would impact materiality used in our planning and execution of the audit.

### **Significant Findings from the Audit**

#### *Management Judgments and Accounting Estimates*

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We have made tests of management's estimates and deemed them to be appropriate.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

#### *Misstatements*

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Additionally, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction.

During our audit, there were material misstatements that were brought to the attention of management by us. Management has agreed with the proposed adjustments and corrected the misstatements accordingly.

#### *Discussion about the Quality of Significant Accounting Practices*

In accordance with applicable auditing standards, a discussion was held with management regarding the quality of the District Library's significant accounting practices, which included the District Library's significant accounting practices, estimates, and financial statement disclosures.

#### *Adoption of a Change in Accounting Principle*

There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the District Library's financial statements.

*Disagreements with Management*

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the District Library's financial statements or the audit report. No such disagreements arose during the course of our audit.

*Consultation with Other Accountants*

There may be circumstances where the District Library considers consulting with other accountants about accounting and auditing matters. We are not aware of any consultations about accounting or auditing matters between management and other accountants. We are also not aware of opinions obtained by management from other accountants on the application of generally accepted accounting principles.

*Significant Issues Discussed with Management Prior to Our Retention*

Prior to our being retained as auditor for the current fiscal year, there were no significant accounting or other issues of concern discussed with management.

*Material Alternative Accounting Treatments Discussed with Management*

During the past year, there were no discussions with management concerning material alternative accounting treatments.

*Significant Difficulties Encountered in Performing the Audit*

There were no significant difficulties encountered during the course of the audit. All records and information requested by Pridnia LaPres, PLLC were freely available for inspection. Management and other personnel provided full cooperation.

*Representations Requested from Management*

Refer to the management representation letter that we have provided to those charged with governance.

*Other Issues Arising from the Audit that We Consider Significant and Relevant to Those Charged with Governance*

There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

*Other Material Written Communications with Management*

We have provided to those charged with governance copies of all material written communications that we prepared in connection with our annual audit.

**Internal Control Matters**

We have communicated, in writing, to management and to those charged with governance all material weaknesses in connection with our audit of the financial statements that we are aware of.

**Independence**

We are not aware of any circumstances or relationships that would impair our independence.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of those charged with governance and management of Muskegon Area District Library and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

A handwritten signature in black ink that reads "Patricia L. Jones, LLC". The signature is written in a cursive, flowing style.